

## FOURTH QUARTER 2006: THE ECONOMY AND SMALL BUSINESS

### Trends

- Real output grew at an annual rate of 3.5 percent in the fourth quarter of 2006, an increase over the previous two quarters. The economy grew as a result of higher real personal consumption and increased net exports. Real gross private fixed investment fell, a casualty of continued weakness in the housing sector. For the year, real gross domestic product grew 3.4 percent. Industrial production rose during the quarter and the year as a whole.
- Consumer and business optimism indicators were mixed. The University of Michigan's Consumer Sentiment Survey showed increased consumer optimism for the quarter, but the National Federation of Independent Business's Optimism Index fell, ending the year at 96.5. This reading, if confirmed in future months, could indicate slower growth in the small business sector in 2007. The NFIB survey also showed a drop in the number of small businesses willing to expand or hire in the next three months compared with the previous quarter.
- The unemployment rate in December 2006 was 4.5 percent. Non-farm payroll increased by 511,000 in the fourth quarter and 2.2 million for the entire year. Employment rose in every major sector except construction and manufacturing during the quarter; employment grew in every sector except manufacturing and retail trade during the year. Three sectors with significant proportions of small firms—professional and business services, health and education services, and leisure and hospitality—accounted for nearly 1.5 million of the net new jobs in 2006. Incorporated and unincorporated self-employment increased for the year.
- Interest rates began to level off after several quarters of upward creep. Rates for the smallest loans fell 0.1 percent for the quarter, but were up approximately 1 percent for the year. Higher rates have begun to affect the demand for small business loans; more senior bank officers suggested a weaker demand than a stronger one. (The vast majority, however, observed no change in demand.) Meanwhile, there were \$25.5 billion in venture capital deals in 2006—the highest volume since the dot-com collapse. For the last five months of 2006, short-term Treasury bill rates were higher than longer-term Treasury notes. This phenomenon, the so-called “inverted yield curve,” has sparked considerable debate among economists; at a minimum, it indicates that the market is predicting lower interest rates in the long term.
- Inflation remained under control. In 2006, the consumer and producer price indexes increased 2.6 and 1.8 percent, respectively. In the fourth quarter, consumer prices barely rose—up just 0.2 percent on an annualized basis—and were helped by lower energy costs. The price of West Texas crude was below \$60 a barrel for much of the fourth quarter. Private sector wages, salaries, and benefits increased 3.1 percent year-to-year, but in the fourth quarter of 2006, benefit gains outstripped wages and salaries.

### Small Business Indicators

	Last five years					Last five quarters					Trends	
	2002	2003	2004	2005	2006	Q4-05	Q1-06	Q2-06	Q3-06	Q4-06	This Quarter	Q4-05 to Q4-06
Business bankruptcy filings (thousands)	38.5	35.0	34.3	39.2	--	12.8	4.1	4.9	5.3	--	--	--
Proprietors' income (\$billion, current dollars)	768.4	811.3	911.1	970.7	1014.8	996.8	1008.3	1011.9	1014.8	1024.0	↑ 3.7% (a)	↑ 2.7%
Prime bank loan rate	4.7	4.1	4.3	6.2	8.0	7.0	7.4	7.9	8.3	8.3	0	↑ 1.1
Rates for smallest loans (less than \$100,000):												
Variable rate loans, repricing terms of 2-30 days	5.1	4.4	4.4	6.0		6.7	7.2	7.7	8.0	7.9	↓ 0.1	↑ 1.2
Variable rate loans, repricing terms of 31-365 days	6.6	6.4	6.2	7.1		7.7	8.3	8.1	8.7	8.6	↓ 0.1	↑ 0.9
Senior loan officers (percent of respondents):												
Net small firm C&I lending standards (those whose standards were eased minus those tightened)	-20.0	-7.1	13.1	9.0	4.6	4.2	4.8	7.0	4.8	1.8	↓ 3.0	↓ 2.4
Net small firm demand for C&I loans (those whose demand was stronger minus those weaker)	-40.0	-14.7	25.9	27.3	0.2	16.7	5.3	3.5	5.0	-13.0	↓ 18.0	↓ 29.7
Venture investment: number of deals	3083	2895	3031	3100	3416	798	839	913	862	802	↓ 60	↑ 4
Venture investment: total invested (\$billion)	21.8	19.7	22.1	22.8	25.5	5.7	6.3	6.9	6.6	5.7	↓ 0.9	0

**Notes:** a=annualized growth rate. The fourth quarter figure is for October and measures from July. C&I = commercial and industrial loans. Trends may reflect rounding error.

**Sources:** Administrative Office of the U.S. Courts; Board of Governors of the Federal Reserve System; National Venture Capital Association; U.S. Department of Commerce, Bureau of Economic Analysis.

	Last five years					Last five months (2006)					Trends	
	2002	2003	2004	2005	2006	Aug	Sept	Oct	Nov	Dec	This Quarter	Dec 05 to Dec 06
NFIB Small Business Optimism Index (1986 = 100)	101.2	101.3	104.6	101.6	98.9	95.9	99.4	100.7	99.7	96.5	↓ 2.9	↓ 4.9
NFIB: next 3 months “good time to expand” (percent of respondents)	14.3	15.7	22.3	20.6	17.4	13.0	18.0	20.0	17.0	17.0	↓ 1.0	↓ 4.0
NFIB: net percent planning to hire in the next 3 months	10.8	10.2	15.3	14.4	14.6	17.0	17.0	16.0	19.0	10.0	↓ 6.0	↓ 5.0
Self-employed, incorporated (millions)	4.6	5.0	5.2	5.3	5.5	5.4	5.4	5.5	5.6	5.7	↑ 0.3	↑ 0.3
Self-employed, unincorporated (millions)	9.9	10.3	10.4	10.5	10.6	10.7	10.7	10.8	10.6	10.6	↓ 0.1	↑ 0.4

**Sources:** National Federation of Independent Business; Current Population Survey, U.S. Bureau of Labor Statistics.

## Employment by Major Sector (millions)

	Percent small business	Last five years					Last five months (2006)					Trends	
		2002	2003	2004	2005	2006	Aug	Sept	Oct	Nov	Dec	This Quarter	Dec 05 to Dec 06
<b>Goods-producing industries</b>	<b>57.61</b>	<b>22.55</b>	<b>21.81</b>	<b>21.88</b>	<b>22.19</b>	<b>22.58</b>	<b>22.63</b>	<b>22.63</b>	<b>22.57</b>	<b>22.53</b>	<b>22.52</b>	<b>↓ 0.10</b>	<b>↑ 0.11</b>
Natural resources and mining	51.24	0.58	0.57	0.59	0.63	0.68	0.69	0.69	0.70	0.70	0.70	↑ 0.01	↑ 0.05
Construction	86.43	6.71	6.73	6.98	7.34	7.69	7.72	7.73	7.71	7.68	7.69	↓ 0.03	↑ 0.14
Manufacturing	44.00	15.26	14.51	14.32	14.23	14.20	14.22	14.21	14.17	14.14	14.13	↓ 0.08	↓ 0.08
<b>Service-producing industries</b>	<b>49.36</b>	<b>107.79</b>	<b>108.18</b>	<b>109.54</b>	<b>111.50</b>	<b>113.60</b>	<b>113.81</b>	<b>114.01</b>	<b>114.17</b>	<b>114.42</b>	<b>114.63</b>	<b>↑ 0.61</b>	<b>↑ 2.13</b>
Trade, transportation and utilities	45.35	25.50	25.29	25.53	25.96	26.23	26.23	26.24	26.26	26.32	26.34	↑ 0.10	↑ 0.20
Wholesale trade	61.58	5.65	5.61	5.66	5.76	5.90	5.91	5.92	5.92	5.93	5.95	↑ 0.03	↑ 0.13
Retail trade	42.16	15.02	14.92	15.06	15.28	15.32	15.30	15.29	15.30	15.33	15.31	↑ 0.02	↓ 0.04
Information	26.17	3.39	3.19	3.12	3.06	3.05	3.05	3.05	3.05	3.06	3.07	↑ 0.02	↑ 0.02
Financial activities	41.43	7.85	7.98	8.03	8.15	8.36	8.38	8.41	8.42	8.42	8.43	↑ 0.03	↑ 0.18
Professional and business services	44.95	15.98	15.99	16.39	16.95	17.56	17.62	17.64	17.66	17.73	17.80	↑ 0.16	↑ 0.51
Education and health services	48.08	16.20	16.59	16.95	17.37	17.84	17.89	17.95	17.98	18.02	18.07	↑ 0.12	↑ 0.50
Leisure and hospitality	62.09	11.99	12.17	12.49	12.81	13.14	13.19	13.21	13.26	13.32	13.36	↑ 0.16	↑ 0.45
Other services	86.27	5.37	5.40	5.41	5.39	5.43	5.43	5.44	5.45	5.44	5.44	0	↑ 0.04
Government	--	21.51	21.58	21.62	21.81	21.99	22.02	22.08	22.10	22.11	22.11	↑ 0.03	↑ 0.23

**Notes:** Seasonally adjusted. See <http://www.bls.gov/ces/cessuper.htm> for NAICS code equivalents for each sector. The small business percentage by sector is based on 2004 firm size data. See [http://www.sba.gov/advo/research/us04\\_n6.pdf](http://www.sba.gov/advo/research/us04_n6.pdf). Trends may reflect rounding error.

**Sources:** U.S. Small Business Administration, Office of Advocacy, using data from the U.S. Department of Commerce, Bureau of the Census; U.S. Department of Labor, Bureau of Labor Statistics.

## Macroeconomic Indicators

	Last five years					Last five quarters					Trends (percent)	
	2002	2003	2004	2005	2006	Q4-05	Q1-06	Q2-06	Q3-06	Q4-06	This Quarter	Q4-05 – Q4-06
Real gross domestic product Level (\$billion)	10048.9	10301.1	10703.5	11048.6	11422.4	11163.8	11316.4	11388.1	11443.5	11541.6	↑ 3.5 (a)	↑ 3.4
Annual percentage change*	1.6	2.5	3.9	3.2	3.4	1.8	5.6	2.6	2.0	3.5		
Real personal consumption expenditures (\$billion)*	7099.3	7295.4	7577.1	7841.2	8092.3	7910.2	8003.8	8055.0	8111.2	8199.2	↑ 4.4 (a)	↑ 3.7
Real gross private fixed investment (\$billion)*	1557.2	1613.1	1770.6	1866.3	1951.3	1927.0	1963.6	1968.5	1964.8	1908.2	↓ 11.0 (a)	↓ 1.0
Federal government surplus or deficit (\$billion)	-247.9	-372.2	-382.0	-309.2	--	-263.5	-147.0	-163.0	-165.5	--	--	--
Real exports of goods and services (\$billion)*	1013.3	1026.1	1120.4	1196.1	1302.3	1228.4	1269.3	1288.5	1310.0	1341.5	↑ 10.0 (a)	↑ 9.2
Real imports of goods and services (\$billion)*	1484.6	1545.0	1711.3	1815.3	1920.1	1865.0	1905.9	1912.7	1938.8	1922.9	↓ 3.2 (a)	↑ 3.1
Corporate profits after tax (\$billion)	693.7	749.9	882.5	931.4	--	968.9	1112.1	1115.7	1162.7	--	--	--
Nonfarm business sector output per hour for all persons (1992=100)	123.5	128.0	131.8	134.9	137.7	135.8	137.2	137.6	137.5	138.6	↑ 3.2 (a)	↑ 2.1
Employment Cost Index: private sector wages & salaries (2005=100)	91.6	94.2	96.8	99.2	102.0	100.1	100.8	101.7	102.5	103.2	↑ 2.8 (a)	↑ 3.1
Employment Cost Index: private sector benefits (2005=100)	83.7	88.8	94.8	99.2	102.1	100.4	100.8	101.5	102.5	103.5	↑ 4.0 (a)	↑ 3.1

**Notes:** Seasonally adjusted; \*Chained 2000 dollars; a=annualized growth rate. Real GDP and its components are preliminary data. Trends may reflect rounding error.

**Sources:** U.S. Department of Commerce, Bureau of Economic Analysis; U.S. Department of Labor, Bureau of Labor Statistics.

	Last five years					Last five months (2006)					Trends	
	2002	2003	2004	2005	2006	Aug	Sept	Oct	Nov	Dec	This Quarter	Dec 05 to Dec 06
Unemployment rate (seasonally adjusted)	5.8	6.0	5.5	5.1	4.6	4.7	4.6	4.4	4.5	4.5	↓ 0.1	↓ 0.4
Civilian employment—16 years and older (millions, seasonally adjusted)	136.5	137.7	139.2	141.7	144.4	144.6	144.9	145.3	145.6	145.9	↑ 1.0	↑ 3.1
Civilian unemployed—15 weeks and over (millions, seasonally adjusted)	2.9	3.4	3.1	2.6	2.3	2.3	2.3	2.1	2.2	2.1	↓ 0.2	↓ 0.3
Nonfarm payrolls (millions, seasonally adjusted)	130.4	130.0	131.4	133.7	136.2	136.4	136.6	136.7	136.9	137.1	↑ 0.5	↑ 2.2
Producer Price Index (1982=100)	131.1	138.1	146.7	157.4	164.8	167.9	165.4	162.0	165.1	166.0	↑ 1.5% (a)	↑ 1.8%
Consumer Price Index (all urban consumers and all items; seasonally adjusted, 1982-84=100)	179.9	184.0	188.9	195.3	201.6	203.7	202.7	201.7	201.7	202.8	↑ 0.2% (a)	↑ 2.6%
Univ. of Michigan Consumers' Sentiment (1966=100)	89.6	87.6	95.2	88.6	87.3	82	85.4	93.6	92.1	91.7	↑ 6.3	↑ 0.2
Spot oil price per barrel: West Texas intermediate crude	26.10	31.14	41.44	56.47	66.10	73.05	63.87	58.88	59.37	62.03	↓ \$1.84	↑ \$2.60
ISM Purchasing Managers Index—manufacturing composite (seasonally adjusted)	52.4	53.3	60.5	55.5	53.9	54.3	52.7	51.5	49.9	51.4	↓ 1.3	↑ 4.1
Industrial production (2002=100, seasonally adjusted)	100.0	101.1	103.6	106.9	111.3	112.5	112.2	112.1	112.0	112.4	↑ 0.3	↑ 3.3
3-month Treasury bills (secondary market rate)	1.60	1.01	1.37	3.15	4.73	4.96	4.81	4.92	4.94	4.85	↑ 0.04	↑ 0.96
10-year Treasury note (constant maturity rate)	4.61	4.02	4.27	4.29	4.79	4.88	4.72	4.73	4.60	4.56	↓ 0.16	↑ 0.09

**Notes:** a = annualized growth rate. Trends may reflect rounding error.

**Sources:** Board of Governors of the Federal Reserve System; Dow Jones Energy Service; Institute for Supply Management; U.S. Department of Labor, Bureau of Labor Statistics; University of Michigan, Survey of Consumers.

For previous quarterly indicators, visit [www.sba.gov/advo/research/sbei.html](http://www.sba.gov/advo/research/sbei.html). Note that historical data are revised periodically, and this version reflects such changes.